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**Report Highlights:** Italy's 2002 wine production decreased 17% from 2001 to 43.2 million hectoliters (the lowest level of the last 50 years), due to adverse weather over two seasons (cold and dry winter, unusually rainy summer). Average quality is rated as good, with different ratings at local levels. Wine exports in CY 2001 dropped in volume but rose in value, due to reduced shipments of table wines, which still account for over half of total Italian exports. U.S. wine exports to Italy further recovered in 2001, but are still marginal.

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## SECTION I. SITUATION AND OUTLOOK

Italian wine production in 2002 is preliminarily estimated at 43.2 million hectoliters, or 17 percent less than last year, and the lowest crop in the last 50 years. Weather conditions have been adverse during most of the year: very cold and dry through February, warm but still dry in March, cold and rainy in April-May, and unusually rainy over most of the summer, including September, when usually sunny weather is crucial to increase the sugar content of the grapes. In terms of quality, too, the 2002 vintage is not rated among the best ones, although the situation is mixed among the different producing areas, and even within them. Controlled appellation wines still represent a minority, or no more than 20 percent of total wine production, and are produced in much higher proportion in the north and in Tuscany, with minimal production in the south.

Wine grape area, after the remarkable drop reported in the last two decades, has now stabilized at about 800,000 hectares, and total vine area is not expected to change dramatically in the near future. In addition, current EU farm policy programs reinforce a general prohibition of new vine planting through 2010, allowing only a limited derogation of vine re-planting for use in producing high quality wines (slightly over 18,000 hectares for Italy).

The EU distillation programs, aimed at supporting growers' incomes, have attracted more stable volumes, after the peaks reached in the early 90's. However, in 2001/02 total distilled wine volume was about 6.9 million hectoliters, or about 13 percent of total wine production, due to the continued market difficulties reported for table wines. For 2002/03 general expectations indicate a volume of about 3 million hectoliters, consequent to the strongly reduced crop.

Domestic wine consumption keeps declining, although at a lower rate than in the recent past. Per capita consumption is now about 50 liters, while beer consumption reached almost 29 liters in 2001. Italian consumers are increasingly oriented towards quality wine, consumed mainly at special events.

Italian wine exports in 2001 confirmed the 2000 trend: a decline in volume (-10 percent) and a rise in value (+6 percent). This situation reflects the further drop in exports of table wines and a larger share of bottled Appellation of origin wines. The main destinations, as usual, were Germany (35 percent of the total volume), France (16 percent by volume), and the United States (13 percent by volume but 24 percent in value). Significant volumes were also exported to the U.K., Switzerland, Japan, Canada and some eastern European countries.

U.S. wine exports to Italy remain marginal, but showed further signs of recovery in 2001, at least in volume terms, thanks mainly to an aggressive marketing campaign by some leading U.S. wineries.

## SECTION II. STATISTICAL TABLES

## WINE

PSD Table						
Country	Italy					
Commodity	Wine				(1000 MT)(1000 HL)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
TOTAL Grape Crush	73458	73458	69800	11000	0	58000
Begin Stock (Ctrl App)	10800	10800	10500	11100	0	11200
Begin Stock (Other)	20072	20072	15310	22366	0	23615
TOTAL Beginning Stocks	30872	30872	25810	33466	22010	34815
Prod. from Wine Grapes	54090	54090	51500	52293	0	43241
Prod. from Table Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	54090	54090	51500	52293	0	43241
Intra-EU Imports	609	555	635	764	0	1200
Other Imports	57	57	65	143	0	300
TOTAL Imports	666	612	700	907	0	1500
TOTAL SUPPLY	85628	85574	78010	86666	22010	79556
Intra-EU Exports	12970	12585	12200	11289	0	9500
Other Exports	4648	4155	4800	4562	0	4500
TOTAL Exports	17618	16740	17000	15851	0	14000
Dom.Consump(Cntrl App)	7400	7258	7400	7300	0	7350
Dom.Consump(Other)	34800	28110	31600	28700	0	27000
TOTAL Dom.Consumption	42200	35368	39000	36000	0	34350
End Stocks (Cntrl App)	10500	11100	10400	11200	0	10800
End Stocks (Other)	15310	22366	11610	23615	0	20406
TOTAL Ending Stocks	25810	33466	22010	34815	0	31206
TOTAL DISTRIBUTION	85628	85574	78010	86666	0	79556

## ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN						
	Quantity (1000 Hectoliters)			Value (Million Euros)		
	1999	2000	2001	1999	2000	2001
Grand Total	455	565	680	184	200	178
France	292	323	244	158	167	135
Germany	26	24	16	3	3	3
Greece	24	22	5	2	1	1
Spain	13	87	261	3	7	11
Portugal	31	34	37	9	10	10
Other EU countries	3	10	14	2	3	7
Total EU	389	500	577	177	191	167
U.S.	2	2	3	1	2	1
Australia	1	1	2	0	0	1
South Africa	3	7	2	0	1	0
Slovakia	3	3	2	0	0	0
Tunisia	0	7	6	0	1	0
Chile	4	6	5	0	1	2
Hungary	10	11	10	0	1	1
Romania	0	0	33	0	0	1
Other Countries	43	28	40	6	3	5

Source: ISTAT

1 Euro = \$1.066 in 1999

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

## ITALIAN IMPORTS OF WINE AND MUST

ITALIAN IMPORTS OF WINE AND MUST						
	QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	1999	2000	2001	1999	2000	2001
Total Wines	455	565	680	184	200	178
- in bottles	97	122	108	30	40	41
- in bulk	261	327	479	20	20	21
- sparkling	12	13	16	2	5	4
- champagne	66	79	58	130	130	109
- other spumanti	19	24	19	2	5	3
Must	171	48	42	6	0	2
Grand total	626	613	722	190	200	180

Source: ISTAT

1 Euro = \$1.066 in 1999

1 Euro = \$0.924 in 2000

1 Euro = \$0.896 in 2001

## ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION						
	Quantity (1000 Hectoliters)			Value (Million Euros)		
	1999	2000	2001	1999	2000	2001
Grand Total	18,320	17,060	15,371	2,307	2,401	2,555
France	4,181	3,386	2,469	169	135	107
Germany	6,277	5,991	5,387	742	727	744
U.K.	1,157	1,163	1,206	216	215	244
Belgium	292	247	227	33	36	37
Netherlands	280	278	280	49	44	49
Denmark	154	189	192	37	44	48
Spain	1,137	445	90	54	29	13
Portugal	598	274	77	36	19	10
Austria	312	332	356	50	54	63
Other EU countries	303	635	768	59	74	91
Total EU	14,691	12,940	11,052	1,445	1,377	1,406
U.S.	1,492	1,625	1,785	447	543	611
Switzerland	560	562	592	136	138	167
Canada	354	402	404	83	106	113
Japan	284	317	354	89	101	112
Russia	12	114	23	3	8	8
Poland	296	233	134	12	10	9
Czech Rep.	150	187	270	5	7	9
Other countries	481	680	757	87	111	120

Source: ISTAT

1 Euro = \$ 1.066 in 1999

1 Euro = \$ 0.924 in 2000

1 Euro = \$ 0.896 in 2001

# ITALIAN EXPORTS OF WINE & MUST

ITALIAN EXPORTS OF WINE & MUST						
	QUANTITY (1.000 Hectoliters)			VALUE (Million Euros)		
	1999	2000	2001	1999	2000	2001
DOC Wines	4,221	4,507	4,708	1,090	1,210	1,399
- in bottles	3,862	4,138	4,378	1,050	1,170	1,359
- in bulk	359	369	330	40	40	40
Sparkling wines	945	963	1,057	140	140	155
Other wines*	12,261	10,884	8,806	857	871	800
Spumanti	893	706	800	220	180	201
Total wines	18,320	17,060	15,371	2,307	2,401	2,555
Must	338	317	243	33	29	25
Grand total	18,658	17,377	15,614	2,340	2,430	2,580

Source: ISTAT

\*Still table wines

1 Euro = \$1.066 in 1999

1 Euro = \$ 0.924 in 2000

1 Euro = \$ 0.896 in 2001



## PRODUCTION

### General

Italian wine production this year is still preliminarily estimated at 43.2 million hectoliters (MHL), or 17 percent less than in 2001, and the lowest crop of the last 50 years. Moreover, during the latest 30 years, Italian wine production had always been over 50 MHL. Weather conditions have been adverse during most of the year. Last winter, in particular, was characterized by generally very cold temperatures through mid-February, accompanied by a prolonged drought. During the second half of February and especially in March, on the contrary, temperatures rose remarkably, well above the season averages, but rains continued to be lacking in most of Italy. In April and May, on the other hand, the weather was wintry: low temperatures and extensive rains all over Italy, thus causing a mixed vine sprouting and a prolonged flowering, often hampered by adverse weather, with a consequent poor fruit-setting. The unusually rainy summer (temperatures reached the usual summer peaks only in June) lasted throughout September and favored the spread of several vine diseases, especially mildew, which further cut average yields. Furthermore, rainy September disappointed growers because the lack of warm sunshine did not allow them to obtain a substantial increase in grape sugar content.

As a result, average yields, both in terms of grape production per hectare and of wine output from grape processing, have been much lower than in normal years, and this was true virtually in all the Italian regions, with only minor exceptions. As a matter of fact, breaking down production by region, the latest estimates indicate dramatic drops (between 20 and 25 percent) in most leading regions, such as Piedmont, Lombardy, Veneto, Apulia, Sicily and Sardinia. Only slightly lower declines (between 12 and 18 percent) are reported in Trentino Alto Adige, Emilia-Romagna and Umbria, while the decrease was minor in Tuscany (-8%) and Campania (-5%). The only region reporting a "plus" was Abruzzi, where, however, the 2001 production had been particularly poor.

Concerning quality, most experts find it difficult to rate this year's vintage, considered to be extremely heterogeneous, not only among the different producing areas, but even inside them. On average, in any case, the 2002 vintage is classified as good, on a scale which includes "poor", "medium", "good", "very good", and "excellent".

Wine grapes are produced in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

## ITALY: WINE PRODUCTION BY REGION

<b>ITALY: wine production by region (1,000 hectoliters)</b>			
	1999	2000	2001
Piedmont	3,267	2,938	3,324
Lombardy	1,488	1,360	1,286
Trentino Alto Adige	1,226	1,177	1,230
Veneto	9,265	8,825	8,668
Friuli Venezia Giulia	1,155	1,152	1,111
Emilia Romagna	7,143	6,915	7,116
Other North	189	196	122
Total North	23,733	22,563	22,857
Tuscany	2,665	2,540	2,220
Umbria	979	966	879
Marche	1,686	1,609	1,683
Latium	3,689	3,733	3,008
Total Center	9,019	8,848	7,790
Abruzzi	4,225	3,689	3,441
Campania	2,164	2,013	1,717
Apulia	8,235	7,782	6,877
Other South	1,589	1,396	1,017
Total South	16,213	14,880	19,652
Sicily	8,160	7,106	7,149
Sardinia	947	693	845
Total Islands	9,107	7,799	7,994

<b>GRAND TOTAL</b>	<b>58,072</b>	<b>54,090</b>
<b>52,293</b>		

As can be seen from the above table, in terms of volume, in 2001 Veneto was confirmed as the lead region in production, followed by Sicily, Emilia- Romagna and Apulia. These four regions account, on average, for more than half of total Italian wine production. About half of total wine production is represented by white wines, and the remaining half by red and, to a much lesser extent, rose' wines. Controlled Appellation wines (DOC wines) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, there are 301 DOC wines and 23 DOCG wines (Guaranteed Appellation of Origin) in Italy.

Many of the most valuable Italian wines are DOCG (i.e. Asti Spumante, Barolo, Barbaresco, Chianti, Brunello di Montalcino). While normal DOC wines can be sold at the retail level in containers of up to 60 liters, only DOCG wines can be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. DOC and DOCG wine production's share of total domestic output remains relatively small, accounting (average 1998-2000 vintages) for slightly over 20 percent. This share, however, varies considerably by producing regions, with peaks in Trentino Alto Adige (73 percent), Friuli Venezia Giulia (63 percent), Piedmont (59 percent) and Tuscany (51 percent). Minimal levels of these quality wines are produced in the South, where most production is classified as "table wine."

#### Planted Area

As already reported in past years, Italian vine area has been in steady decline, dropping from the peak of 1.35 million hectares in the late 80's to the current level of slightly over 800,000 hectares. The regions with the largest drops were Sicily, Tuscany, Sardinia and Apulia, while in the north the decline reported for table wine area has been partially offset by an increase in area planted to Controlled Appellation vines. The recent (2000) agricultural census has reported a dramatic decline (-35%) during the last decade of total wine grape farms, now totaling about 767,000 units.

The current CAP (Common Agricultural Policy) for the wine sector, passed in 1999, called for a general prohibition of new vine planting through 2010. At the same time, it allowed a special, limited derogation for vine re-planting up to 2003, making an exception for planting of high quality wines grapes. For Italy the permitted area was originally fixed at 12,933 hectares, then raised to 18,113 hectares, thanks to adjustments in the breakdown of total area among the different member countries. Total EU expenditures for Italy in both 2000 and 2001 under this program were 115 million Euros, with over 60 percent of this amount spent in four leading producing regions (Tuscany, Piedmont, Apulia and Sicily).

## Distillation

The current CAP has established two different, voluntary distillation programs: the optional distillation (automatically opened at the beginning of each marketing year), and the "crisis" distillation (aimed at supporting the market in case prices for a certain type of wine or in a delimited producing region show a significant worsening for a certain time). During 2000/01, contracts approved under optional distillation involved about 5 MHL, while wines distilled under the "crisis" distillation totaled about 1.3 MHL, thus making the total about 6.3 MHL. In 2001/02 total volumes have been slightly larger: 2.9 MHL of optional distillation and 4 MHL of crisis distillation, with a total of 6.9 MHL, reflecting a generally depressed domestic market situation. As a result, about 13 percent of total domestic wine production has been distilled, vs. 12 percent in 2000/01 and 8 percent in 1999/2000 (the last year of the previous EU distillation program). This situation reflects the still huge volumes of low quality, cheap table wines produced in Italy, especially in the south, where distillation still represents the "natural" outlet of local production. The situation, however, should improve in current 2002/03, given the extremely low domestic crop, which makes unlikely any producers' delivery to the crisis distillation program, in line with the increased price trend.

## Prices

Domestic table wine prices during most of the 2001/02 marketing year have generally been affected by lower export demand, particularly from France. As a result prices further dropped from the previous year: -1% for white table wines and -6% for red table wines. Prices of DOC/DOCG wines, on the contrary, showed a different trend, mainly thanks to a growing export demand. According to ISMEA, grower prices in 2001/02 averaged some 3 percent higher than in 2000/01 for quality white wines and 5 percent more for red DOC/DOCG wines. The negative trend for table wines follows a negative situation already in force in the three previous years, when prices of both red and white table wines declined by almost 20 percent, consequent to the continued decrease in exports and domestic consumption, both more and more focused on better quality wines. The very low volume of the 2002 vintage, however, has already favored a general price increase for all wine classes. Last November, prices averaged some 35 percent higher than one year ago.

## Production Policy

CAP reform for the wine sector, as said above, was fully implemented in 2000/01, and its main measure has been the removal of the old distillation programs and the introduction of the "crisis" distillation. The current CAP, however, is not expected to have a significant impact on the Italian wine industry, whose major goal is still to improve the quality of its production, especially in the southern regions.

## CONSUMPTION

Domestic wine consumption has continued to decrease even in the most recent years, partially replaced by beer and soft drinks. The following table shows the trend in the latest decades, on a per capita basis.

### PER CAPITA CONSUMPTION OF ALCOHOLIC BEVERAGES (Liters)

Year	Spirits (40% alc.)	Beer (5% alc.)	Wine (11%alc.)	Total (Pure alcohol)
1975	4.5	12.8	104.0	12.8
1980	4.8	16.7	92.9	13.0
1985	3.3	21.9	75.0	10.6
1990	2.5	25.1	62.5	9.2
1995	2.0	25.4	55.7	8.2
1996	1.5	24.0	54.2	7.8
1997	1.5	25.4	53.5	7.8
1998	1.4	26.9	52.0	7.7
1999	1.3	27.1	51.5	7.6
2000	1.2	28.1	51.0	7.5
2001	1.1	28.9	50.0	7.6

Source: ISMEA

As can be seen from the above table total consumption of alcoholic beverages (expressed in pure alcohol) has declined in the last quarter century by over 40 percent, although in the most recent years the trend indicates a substantial steadiness. Aging population, health and diet concerns, and quickly changing food habits are the main factors explaining this situation. At the same time, as in most developed countries, Italian consumers are increasingly oriented towards quality wines, although evolving life styles have dramatically altered traditional food habits, limiting wine consumption mainly to special events, as well as dinners rather than luncheons. On a per capita basis, wine consumption is larger in central and northern Italy and lower in the south, partly due to different climatic conditions. A recent ISMEA survey further confirms the downward trend of domestic wine consumption: in 2001 Italian families consumed at home less than 9 MHL of wine, vs .more than 9.6 MHL in the previous year. At the same time family expenditures for the purchase of wine to be consumed at home is stable at about 1.6 billion Euros, reflecting both increasing wine prices at retail level and the larger share of better quality, more expensive wines.

## STOCKS

Wine ending stocks increased slightly in 2001/02, reflecting basically the reduced export volumes, but are expected to drop significantly in 2002/02, in line with the strongly decreased domestic production.

## INTERNATIONAL TRADE

Italian wine exports in 2001 confirmed the trend already evident in the previous year: a decline in volume (-10 percent from 2000) and a rise in value (+6 percent). This situation reflects, basically, the further export drop reported for table wines (-19 percent in volume), whose share of total shipments decreased from 64 percent in 2000 to 57 percent in 2001 (again in volume terms), while exports of the most valuable bottled DOC/DOCG wines rose by 6 percent in volume and 16 percent in value. These wines, moreover, although still representing only 28 percent of the total export quantity, account for over half of total export value. Exports of Spumanti, after the strong decline reported in 2000, recovered by 11 percent in 2001, due to larger shipments to Germany, the U.K. and Japan.

In sum, 2001 can be considered a good year for the Italian wine export business, despite the huge drop reported in total volume, which was more than offset in value terms by the significant increase of the shipments of the best quality wines. This trend has been favored by the still strong U.S. dollar which made Italian wines more competitive in the U.S. as well as in third countries. On the other hand, the reduced shipments of table wines to Germany and France (which absorbed almost 60 percent of total Italian table wine exports) reflect mainly both reduced domestic crop and stronger competition from Spain in those market (consequent to the large Spanish supply from the 2000 vintage).

In 2001, however, Germany confirmed its leading position as the major destination for Italian wines, with about 35 percent and 29 percent respectively in volume and value of total Italian shipments. About half (in volume) of total exports to Germany are bulk wines, but bottled wines account for about 69 percent of the total in value terms. Exports to France (the second destination in volume terms, with 16 percent of the total), further dropped in 2001 by 27 percent and are almost exclusively (95 percent of the total) represented by very cheap bulk wines. Exports to the United States, the third largest export market in terms of quantity, increased by 10 percent in quantity and 13 percent in value, favored, as mentioned above, by the strong dollar. In value terms, the U.S. was again the second largest outlet for Italian wines, absorbing about 24 percent of the total, while about half of Italian shipments to the U.S. are represented by more expensive DOC/DOCG wines.

Preliminary data for 2002 indicate a partial, very slight recovery of the export volumes and a further confirmation of the value trend. According to ISMEA, Italian shipments totaled 10.5 MHL during January-August 2002, or 1 percent more than in the same period of 2001, while the export value rose by 7 percent. The major increases, in terms of value, are reported for the U.S. (+18 percent over the same period of 2001), Canada (+12 percent) and Switzerland (+8 percent).

Wine imports into Italy (which account for a negligible share of the total Italian wine market), usually are represented by prestige products (e.g. Champagne, Port and Sherry) from other EU countries. In 2001, imports rose by 20 percent in volume, reflecting mainly larger arrivals of bulk wines from Spain, in line with the higher Spanish production trend, along with decreased domestic crop. According to ISMEA during January-August 2002 Italian wine imports totaled 483,000 hectoliters, or 40 percent more than in the same period of 2001, due to strongly expanded shipments from France and Spain.

Shipments from the United States, although growing, remain minimal, with official Italian figures reporting imports of 2,515 hectoliters in 2001, a significant gain of 20 percent. In value terms, however, the same Italian sources indicate that imports totaled 1,139,000 euros (\$1,020,000), or 43 percent less than in 2000. The Italian statistics show for January- August 2002 a slight decline in volume (-4%), but a partial recovery in value (+10%). The U.S. Census data show different trends: in 2001 a decrease in value (-9%) and a substantial steadiness in volume, but in January-September 2002 a dramatic drop both in volume (-76%) and value (-71%). This discrepancy can partially be explained by possible transshipments of U.S. wine within the E.U. The reputation of quality U.S. wines, in any case, is growing in Italy, particularly in top restaurants and hotels. However, prospects for U.S. wine exports to Italy remain limited, given the very strong competition from domestic wine production.

## FOREIGN MARKET DEVELOPMENT

The Italian Trade Commission (ICE), an agency of the former Ministry of Foreign Trade (now part of the wider Ministry of Production Activities), has traditionally been the only public institution to provide export and promotion assistance in foreign markets. In the past, the funds used to promote Italian food and agricultural products, including wines, were provided to ICE by the Ministries of Agriculture and Foreign Trade. Current legislation, however, now also gives authority for export promotion to the 20 Italian regions, which are still using ICE as their main promotional means.

Under current legislation there is no specific export promotion program for wine. Instead, it is included in the general promotional programs of Italian foods and beverages. Total yearly expenditures for foods and beverages currently distributed by ICE are about 23 million euros (virtually the same amount in U.S. dollars), of which 13 million euros come from private companies and associations to the specific promotional activities. Of the remaining 10 million euros, 5 million euros are allocated by the budget of the Ministry of Production Activities, and the remaining 5 million from both the Ministry of Agriculture and special contracts signed with the various regions. Out of the total, it is estimated that about one third is spent to promote wine. The major events include workshops, wine tastings, or point of sale promotions. The main target countries are the U.S., U.K., Canada, Switzerland and Japan. Focus is increasingly given to some growing markets, such as Scandinavian countries, the Far East and China. The Ministry of Production Activities allocation is spent almost entirely at fairs, where national pavilions are co-sponsored with private companies on a 50/50 cost sharing basis, as well as financing trade teams to Italy, especially reporters from the food and beverage press (often co-sponsored by the local industry), and organizing wine tastings.